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SECURITY INFORMATION

CENTRAL INTELLIGENCE AGENCY
BOARD OF NATIONAL ESTIMATES

13 February 1953

MEMORANDUM FOR: Mr. Allan Evans (OIR)
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Assistant Director for Reports and Research

SUBJECT : SE-37: Probable Effects of Various Possible
Courses of Action with Respect to Communist
China

1. Pursuant to IAC action on 12 February, we circulate herewith draft terms of reference for SE-37.

2. The IAC has asked that a draft estimate be ready for consideration at its meeting on 5 March.

3. The IAC has also asked to review the terms of reference of this estimate at its meeting on 19 February. This is not to delay the immediate preparation of contributions but to give additional guidance to the IAC representatives in meeting the requirements of the NSC.

4. The tentative schedule follows:

Friday P.M., 13 February

IAC agencies notified that T/R would be delivered early Saturday. Preliminary work underway on basis of review of SE-27.

2:00 Monday, 16 February

IAC representatives to meet in Room 146 South Building to review terms of reference and finalize allocation of responsibilities.

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10:30 Thursday, 19 February	Unless cleared previously by telephone, IAC will review the terms of reference, but meanwhile the agencies are working on their contributions.
5:00 Friday, 20 February	Contributions due in O/NE.
4:00 Monday, 23 February	Staff draft circulated to Board.
10:00 Tuesday, 24 February	Board will meet on draft estimate.
3:00 Wednesday, 25 February	Board draft to IAC agencies.
2:00 Monday, 2 March	IAC representatives will meet on draft estimate.
10:30 Thursday, 5 March	IAC will meet.

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Executive Secretary

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C E N T R A L I N T E L L I G E N C E A G E N C Y

13 February 1953

SUBJECT: TERMS OF REFERENCE: SE-37: PROBABLE EFFECTS OF
VARIOUS POSSIBLE COURSES OF ACTION WITH RESPECT
TO COMMUNIST CHINA

THE PROBLEM

1. To examine the current status and effectiveness of controls on trade with Communist China, to examine the short and long term effects on the capabilities of the Chinese Communist regime of: (a) a complete embargo; (b) a naval blockade, alone or combined with bombardment of transportation facilities in Communist China; and (c) a Chinese Nationalist effort at blockade and aerial bombardment.

2. To estimate Communist reactions to these measures.

(Note to the contributors: The terms of reference follow closely the form and outline of SE-27 and are given here in full. It is suggested that the terms of reference be checked against the text of SE-27 and that in paragraphs or sections of SE-27 where there is no

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change, the contribution merely refers to pertinent paragraphs of SE-27. Minor changes should also be indicated. Complete terms of reference are necessary in order to clearly define the scope of the paper, but it is hoped that by following the procedure above research may be restricted to the areas in which new information is available.

QUESTIONS BEARING ON THE PROBLEM

- I. WHAT IS THE EXTENT OF PRESENT CONTROLS ON TRADE WITH COMMUNIST CHINA? WHAT ARE THE CONTROLS IMPOSED BY VARIOUS NATIONS, HOW ARE THEY ENFORCED, AND WHAT ARE THE MAJOR TYPES OF CIRCUMVENTION OF THE CONTROLS?
- II. WHAT HAS BEEN THE EFFECT TO DATE OF CONTROLS ON TRADE WITH COMMUNIST CHINA ON THE CAPABILITIES OF THE CHINESE COMMUNIST REGIMES?
 - A. What has been the effect of trade controls on Communist China's ability to import?
 1. What sea-borne imports (including estimates of smuggling) has Communist China received since controls were first applied, with special reference to the current volume and composition, and to trends since the publication of SE-27? (June 1952)

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2. What reductions in Communist China's sea-borne imports from non-Communist countries have occurred since the imposition of the present control measures, with special reference to the period since the publication of SE-27?
 3. To what extent have Soviet Bloc shipments to Communist China offset these reductions? Estimate the composition and volume of Soviet Bloc trade with Communist China with special reference to current volume and composition, and to trends since the publication of SE-27?
- B. What has been the effect on Communist China's economy of the changes in level and pattern of imports that have occurred since the imposition of present trade controls?
1. What industries have been affected, and to what extent? What is the importance of these industries to the Chinese Communist war effort in Korea? What is the importance of these industries to the stability and development of the Chinese Communist economy?
 2. What has been the effect on transportation? What repercussions have transportation difficulties had?

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3. Have there been any significant effects in the non-industrial segments of the economy such as finance and agriculture?

C. What has been the effect of the economic dislocations covered in (B) above upon Communist China's military capabilities, especially in Korea?

D. What has been the effect of the economic dislocations covered in (B) above upon the ability of the regime to maintain political control in China?

III. WHAT WOULD BE THE EFFECT OF A TOTAL EMBARGO OF EXPORTS TO COMMUNIST CHINA FROM ALL NON-SOVIET BLOC COUNTRIES ON THE CHINESE COMMUNIST ECONOMIC AND POLITICAL STRENGTH, AND ITS MILITARY CAPABILITIES? (In this section the following conditions will apply:

The imposition of a total embargo by the entire non-Communist world would presumably extend to both trade and shipping. The implementation of such an embargo would presumably include measures to prevent the transfer or charter of non-Communist shipping to Communist China, the denial of bunkering and servicing in non-Communist ports of ships bound for Chinese Communist ports, and the transshipment of non-Communist goods directly or indirectly to Communist China from other countries

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in the Soviet Bloc. By definition, such an embargo would cut off Communist China's trade (except smuggling) with all countries outside the Soviet Bloc. It would represent the strongest form of economic pressure that could be brought to bear against Communist China short of a general East-West trade and shipping embargo.

The means by which such an embargo would be implemented is beyond the scope of this paper. Whether or not such an embargo would be politically feasible or even desirable in the light of its economic repercussions on the non-Communist world is also beyond the scope of this estimate.

- A. What would be the effects of a complete economic embargo on Communist China's trade pattern over the next year?
1. What is the probable amount and composition of trade with non-Bloc areas that would be "lost"? (Estimate the amount and composition of Communist China's trade with the non-Communist world for the next year assuming a continuation of the present controls.)
 2. What would be the composition and volume of Communist China's imports from the rest of the Soviet Bloc
(a) by sea? (b) by land? What upper limits would be imposed by transportation shortages? What economic

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strains would be placed on the Soviet Bloc if it attempted to provide Communist China with both its military and minimum economic requirements? If it attempted to provide Communist China with sufficient assistance to support a gradual expansion of the Chinese Communist economy? Could the USSR provide assistance on this scale without serious effects on its own planned economic development?

3. What would be the net loss in imports as a result of a total embargo?

B. How would this loss of imports affect Communist China's economy?

1. What would be the effects on the industrial segment of Communist China's economy? What is the importance of the affected industries to the war effort in Korea, to the Chinese Communist economy as a whole?
2. What would be the effects on transportation? What would be the repercussions of these effects to the rest of the economy?
3. What would be the effects in other sectors of the economy such as fiscal and agriculture?

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4. What is the ability of the Chinese Communist economy to replace the "lost" commodities from domestic sources? What would be the diffused effects of shortages and of altering production patterns so that these items would be produced domestically?
- C. What would be the effects on Chinese Communist military capabilities with special reference to their ability to sustain operations in Korea?
 1. Would there be any cut-back in munitions production? In civilian type goods used by the Army?
 2. Would there be any effect on the ability to transport troops and to provide military logistical support?
- D. What would be the extent and nature of the effects of a complete economic embargo on the regime's ability to maintain political control on the Chinese mainland?
- E. What effect might a complete economic embargo have on economic, political, and military relations between the Chinese Communists and the USSR?
- F. What would be the effect of a complete economic embargo maintained over an extended period of time - 2 to 5 years - on Communist China's military capabilities and over-all economic

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and political strength? (Answer generally in terms of B through E above.)

- G. What factors would tend to prevent full enforcement of an economic embargo? (In SE-27 this question is not discussed in the body of the paper since the assumption is made in paragraph 25 that it would be completely effective.) To what extent would these factors reduce the effectiveness of an embargo?

IV. WHAT WOULD BE THE EFFECTS OF A NAVAL BLOCKADE INCLUDING PORT ARTHUR AND DAIREN ON COMMUNIST CHINA'S ECONOMIC AND POLITICAL STRENGTH AND ITS MILITARY CAPABILITIES?

- A. Assuming that a naval blockade would cut off substantially all of Communist China's sea-borne imports, to what extent could the loss of these imports be made up by additional overland imports from the Soviet Bloc?
1. What limitations would be placed on this trade by the capacity of land transportation to Communist China?
 2. What limitations would be placed on this trade by the current capacity of inland transportation within Manchuria and elsewhere in Communist China? What is

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the capability of Communist China to increase such capacity under conditions of a blockade? What assistance could the USSR provide to increase such capacity?

3. What economic strains would be placed on the Soviet Bloc if it attempted to provide Communist China with both its military and minimum economic requirements? If it attempted to provide Communist China with sufficient assistance to support a gradual expansion of the Chinese Communist economy? Could the USSR provide assistance on this scale without serious effects on its own planned economic development?

B. What would be the effects of a naval blockade on Communist China's ocean-going coastal trade?

1. What is the extent, composition, and geographical distribution of this coastal trade?
2. How much of this trade would be cut off by a naval blockade?
3. What is the ability of the inland transportation system of Communist China to carry this coastal trade, allowing

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for the increased overland imports from the Soviet Bloc projected in "A" above?

- C. What would be the short-term effects of the dislocations, shortages, and additional costs, caused by a naval blockade on:
1. The Chinese Communist economy;
 2. The military capabilities of the regime, especially with reference to its ability to sustain military operations in Korea;
 3. The regime's ability to maintain political control over the Chinese people;
 4. Communist China's political, economic, and military relations with the USSR?
- D. If a naval blockade were maintained over an extended period of time - 2 to 5 years:
1. Could the USSR progressively increase its economic assistance to Communist China?
 2. What would be the probable trend in the industrial sector of the Chinese Communist economy? In the

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monetary and fiscal situation? In transportation?
In agricultural production and distribution? On the
over-all economic, political, and military strength
of the regime?

3. What would be the probable trend in economic, political, and military relations between the USSR and Communist China?

V. WHAT WOULD BE THE EFFECTS OF BOMBARDING TRANSPORTATION FACILITIES
IN COMMUNIST CHINA IN CONJUNCTION WITH A NAVAL BLOCKADE?

- A. Have there been any changes in critical transport targets within Communist China as listed in paragraph 50 of SE-27?
- B. What would be the effect on Communist China's ability to sustain military operations in Korea of successful and sustained air bombardment of such targets?
- C. What would be the economic and political effects of successful bombardment of such targets?
- D. What are Communist capabilities to resist air bombardment of such targets?

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VI. WHAT WOULD BE THE EFFECT OF A CHINESE NATIONALIST EFFORT TO BLOCKADE THE CHINA COAST AND TO CONDUCT AIR STRIKES AGAINST INLAND LINES OF COMMUNICATION ON COMMUNIST CHINA'S MILITARY CAPABILITIES, AND ECONOMIC AND POLITICAL STRENGTH?

- A. What are the capabilities of the Chinese Nationalists to prevent ocean shipping from entering Chinese Communist ports? To interfere with coastal trade?
- B. What are the capabilities of the Chinese Nationalists to conduct air strikes against lines of communication on the China mainland?

VII. WHAT WOULD BE THE PROBABLE COMMUNIST REACTION TO:

- 1. A complete economic embargo?
- 2. A naval blockade?
- 3. A naval blockade and an air bombardment of inland lines of communication?
- 4. A naval blockade and air bombardment by the Chinese Nationalists alone?

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